DOCUMENT RESUME

ED 066 036 EM 010 125

AUTHOR	Peters, Robert W.
TITLE	Cable Communications Revolution. Future: Broadband Communications, Local Origination.
INSTITUTION	Stanford Research Inst., Menlo Park, Calif.
PUB DATE	6 Mar 72
NOTE	12p.; Paper presented at the International Cable Television Market Conference (First, Cannes, France, March 6, 1972)
EDRS PRICE	MF-$0.65 HC-$3.29
DESCRIPTORS	Audiences; *Broadcast Industry; *Cable Television; Income; Mass Media; *Programing (Broadcast); Technological Advancement
IDENTIFIERS	CATV; Local Origination; Pay Television

ABSTRACT

The revolution in two-way broadband communications envisioned for the future includes remote access to libraries, interactive educational programing, shopping at home, personal and property security, and many other services limited only by man's imagination and his ability to deliver the service at a price the consumer is willing and able to pay. The most significant attributes of cable television (CATV) program origination are its ability to appeal to selective viewer interests and its ability to offer participation by the community. The development of specialized magazines in the 1960's showed that even a relatively small readership could be profitable. Similarly, CATV programs on such specialized topics as knitting or wine-making should be able to turn a profit. By the early 1980's, with its ability to reach selective audiences, CATV should capture about 3 percent of the total advertising expenditure in the country. Channel leasing and pay TV will provide additional revenue. The growth of revenue in CATV in the coming years should approximate that experienced by television in the early 1950's. (JK)

STANFORD RESEARCH INSTITUTE
Menlo Park, California 94025 · U.S.A.

ED 066036

CABLE COMMUNICATIONS REVOLUTION
Future: Broadband Communications, Local Origination

by

Robert W. Peters
Program Manager
Stanford Research Institute

Presented to:

THE FIRST INTERNATIONAL
CABLE TELEVISION MARKET (MICAB)
CONFERENCE
Cannes, France

March 6, 1972

EM 010 135

U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE
OFFICE OF EDUCATION
THIS DOCUMENT HAS BEEN REPRODUCED EXACTLY AS RECEIVED FROM THE PERSON OR ORGANIZATION ORIGINATING IT. POINTS OF VIEW OR OPINIONS STATED DO NOT NECESSARILY REPRESENT OFFICIAL OFFICE OF EDUCATION POSITION OR POLICY

CABLE COMMUNICATIONS REVOLUTION
Future: Broadband Communications,
Local Origination

by

Robert W. Peters

It is my pleasure to be here with you today to discuss the current situation and expected developments in local program origination. Traditional cable television--and its predecessor community antenna television--consisted of improved reception of local TV stations and access to additional TV programs that were broadcast in distant locations and could not be received off the air in the local area. The revolution in two-way broadband communications envisioned for the future includes remote access to libraries, interactive educational programming, shopping at home, personal and property security, and many other services limited only by man's imagination and his ability to deliver the service at a price the consumer is willing and able to pay.

The development of cable communications is an evolutionary process encompassing several decades, and local program origination represents the essential link between traditional cable television and future broadband communications. It should be kept in mind that these comments are based principally on experience in the United States where TV broadcasting

and CATV are part of the private sector and where the federal government has always encouraged local programming. In contrast, several European countries have not encouraged local expression in broadcasting and similar restraints might also be applied to CATV. In addition, the proximity of many nations each with its own national interest and the diversity of cultures and languages suggests that local programming could develop in an entirely different manner in Western Europe from that in the United States.

The development of local origination is also an evolutionary process. Realizing that local and distant signals did not saturate the available channel capacity, some of the more innovative system operators placed a rotating camera in front of a series of weather dials and a clock, which led to the concept of automated services. Live program origination was initiated when a few system operators rotated the weather camera 180° to cablecast a local personality presenting his view of happenings in the community and announcing coming local events.

As of mid-1971, almost 60 percent of the 2,600 CATV systems in the United States had some form of automated origination including time and weather information, a news ticker, or a stock market ticker. More than 20 percent of the systems were scheduling from 2 to 5 hours of local origination daily including presentation of local live shows and prerecorded film and video tape material.

The industry as a whole, however, has not pursued the development of local origination agressively for several reasons. First, most of the scarce resources of this industry have been devoted to constructing new cable distribution facilities, acquiring additional franchises, and attaining more favorable federal regulation. Second, there has been considerable uncertainty about CATV regulation, specifically regulation pertaining to local programming. Third, there was confusion about selection, cost, and operation of video production equipment resulting from a continuous stream of new, lower cost products. Perhaps most important, however, was the pervasive sentiment that local origination was supposed to be like broadcast television.

Almost as if to demonstrate that local origination was a losing proposition, some operators pursued a thoroughly amateurish type of programming. Others invested far too much money in facilities and operations relative to the level of market acceptance. And most U.S. CATV system operators have made little or no attempt to sell advertising. As painful as these experiences were, they were an important ingredient in understanding the characteristics of local origination, and the industry is better off today as a result.

Local origination might best be described as "people to people" communications or "neighborhood broadcasting." The most significant attributes of CATV program origination are its ability to appeal to selective viewer interests and its ability to offer participation by the

community. The viewer can relate to and interact with the material being presented whether it is watching local news, a municipal government meeting or a local school athletic event; learning how to shop for groceries economically or how to select corporate securities; or even playing a game such as bingo.

Some titles of current programs that illustrate CATV's special interest and participative characteristics are:

- Manhattan Issues
- The Mayor's Report
- Owning a Home
- Advice on Knitting
- The Investment World
- Hebrew Hour
- Victoria Outdoorsmen
- You and the Law
- The Art of Making Wine
- Panorama Italiano
- All About Parents

The key question relating to this selective interest video programming, which CATV is so well qualified to deliver because of its channel capacity, is whether it can generate sufficient revenues to break even or better yet to generate a profit. The experience gained with radio and magazines suggests that it can.

The advent of television in the 1950s severely curtailed the mass audience appeal of radio. To remain economically viable, radio stations created programming to appeal to audiences with selective interests. This programming, combined with the proliferation of radio receivers as the use of transistors increased portability and lowered cost, breathed

new life into the radio broadcasting industry. From 1950 to 1970, radio advertising expenditures doubled to $1.3 billion. Local radio advertising grew more than threefold, spot advertising more than 2.5 times, while network advertising declined to 30 percent of its 1950 volume. During the same 20-year period, the number of U.S. radio stations doubled in response to the increased market demand for specialized programming.

The magazine industry provides a more recent indication of the trend toward programming for special interest groups. Although such traditional general magazines as Saturday Evening Post and Look gave up publishing, special interest publications such as Car & Driver, Forbes, Golf Digest, Saturday Review, and hundreds of others are flourishing. At one time, mass audience magazines had circulations in the tens of millions; today the special interest magazines are profitable with circulations of a million or less.

In recent years, critics have expressed displeasure with commercial TV in the United States. However, it is difficult to quantify this displeasure accurately because many respondents whose self-image leads them to say that TV programming should be improved faithfully watch the same western or comedy series week in and week out. If you will allow me to interpret the viewer's reaction to commercial TV, I believe he is not necessarily seeking a greater diversity of existing types of programming, but alternative types of video programming, tailored more to his own special interests.

Since special interest radio stations and magazines have been able to operate profitably, special interest video programming should be able to generate revenues and operate profitably. The obvious vehicle is CATV.

The sources of revenue resulting from local origination include additional subscribers, advertising, channel lease fees, and special per channel or per program fees resulting from pay TV.

Over a period of several years, a CATV system can expect a 10 percent incremental increase in subscribers if it offers a reasonable bill of fare of automated, local-live, and prerecorded programs. If pay TV includes first run movies, sporting events, and other features, another 10 to 15 percent increase in subscribers would occur even though an additional fee were charged.

By the early 1980s, annual advertising expenditures on CATV could easily exceed $30 per CATV household or about $13 per U.S. household. This estimate is based on the multiplying effect of increased program hours, increased advertising rates, and a higher percentage of available minutes sold. For perspective, advertising expenditures per U.S. household in newspapers are currently about $100, advertising on television more than $60, and radio and magazine advertising expenditures are about $25 each. By the early 1980s, these figures will increase significantly. With its ability to reach selective audiences, CATV should capture about 3 percent of the total advertising expenditure in the United States.

One important factor that will work for realization of these projections is the formation of CATV cooperatives or networks--particularly a national network based on a domestic communication satellite--so that special interest programming can be transmitted on a real-time basis to viewers dispersed throughout the nation.

Channel leasing is another CATV service that will flourish during the 1970s. Enterprising program suppliers will lease channels to present special interest programs combined with subtle, relevant, and informative advertising. Merchandisers will lease channels to present newly developed programs on such topics as fishing or sewing complete with unobtrusive advertising. Governmental organizations will lease channels to present welfare, legal, health, or educational programming to the disadvantaged and other groups. Finally, nonprofit foundations are likely to experiment with new forms of instructional programming. The recent FCC rulings require the CATV operator to make available free of charge a public access channel, a channel for use by local government, and a channel for use by the local educational system.

The final source of revenues to be derived from local program origination is the additional incremental payment by subscribers to gain access to special program channels or to view specific programs. This pay TV feature is likely to develop during the 1970s because it is a natural extension and upgrading of the programming currently available

on commercial TV. If the consumer really wants better programming without commercial interruptions, he will have to pay for it directly.

The question may be asked: "Is there a market for this kind of programming ?" I believe that there is. At present, the consumer has the choice of staying home and viewing generalized TV programming at an equivalent cost of less than 20 cents a night (paid indirectly through higher product costs) or of traveling to public places of entertainment at a cost of around $5. Much of the former movie audience--particularly people over the age of 30--is currently unavailable to the producer because of the cost and inconvenience associated with attending theaters. This same audience is tired of the commercial interruptions on broadcast television. Both the program suppliers and patrons would benefit if box office entertainment were extended into the home at a cost of $1 or $2 per event.

The development of pay TV on cable has several important ancillary benefits. It provides a vehicle for maintaining a nominal price for basic CATV service so that people in all socioeconomic classes can benefit from CATV. In addition, just as the importation of distant signals provides an economic base for developing local origination and pay TV, pay TV will in turn provide an economic base for experimenting with a full range of two-way broadband communications services, the markets for which are currently unknown or at best can only be developed over a period of time.

The U.S. CATV industry has wisely deemphasized the pay TV aspects of cable during the regulatory battle over the importation of distant signals. However, now that the basic ground rules regarding the carriage of broadcast signals appear to have been settled, pay TV will soon emerge as one of the significant services of CATV.

To date, motion picture producers and distributors have been unwilling to negotiate purposefully with the cable TV industry because of the unsettled copyright and broadcast signal importation questions. Also CATV has not been able to deliver a sufficiently large audience, even on a direct payment basis, for the program material suppliers to risk their relationships with TV broadcasters and theatrical exhibitors. However, pay TV represents a significant opportunity for the motion picture industry and several studios will find it attractive to begin releasing products to CATV before the end of the year.

Although pay TV will probably be promoted initially on the basis of first run motion pictures and spectator sporting events, once the incremental fee concept is accepted for mass audience programming, it is expected that more selective types of educational and entertainment programs such as tutorial courses, adult education, specialized programs for physicians and attorneys, and cultural events will be marketed. Pay TV programming will lead the consumer market to demand even greater title selectivity, which can only be supplied by video cassettes.

By the early 1980s, at least 30 percent of the households that subscribe to CATV are also likely to subscribe to some form of premium TV services and they will pay an average of $5 to $7 a month for this added programming service.

Projections by SRI indicate that revenues resulting from local origination activities could increase from less than $10 million in 1970 to more than $90 million in 1978, more than $350 million in 1976, and almost $2 billion in the early 1980s. Astounding? Yes! But it is not unlike the growth that occurred in television revenues after the freeze was lifted in the early 1950s, and television revenues grew entirely from advertising. In CATV, multiple sources of revenue are available. In fact, by 1981, a little less than 50 percent of the revenues would come from advertising, about 20 percent each from subscribers who would not otherwise subscribe to CATV and from added fees for access to special programs or special channels, and about 10 percent from channel leasing.

In summary, markets for diverse, special interest, and participative video programming appear to be materializing in the United States, and CATV has the appropriate technoeconomic characteristics to accommodate these new demands. Similarly, local origination represents the next logical step in the evolutionary development of broadband cable communications systems and services. Although local origination is currently in a formative stage, the creation of innovative and relevent types of

programming can accelerate the spiral of more CATV subscribers, a broader range of programs and services, and increased revenues.